

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Calhoun County Road Commission	County Calhoun
Fiscal Year End December 31, 2007	Opinion Date May 15, 2008	Date Audit Report Submitted to State May 16, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

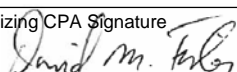
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 517-787-6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name David M. Fisher, CPA		License Number 10337

**CALHOUN COUNTY ROAD  
COMMISSION**

**(a Component Unit of Calhoun County)**

**Marshall, Michigan**

**FINANCIAL STATEMENTS**

**For The Year Ended December 31, 2007**



**REHMANN ROBSON**

*Certified Public Accountants*

**CALHOUN COUNTY ROAD COMMISSION**  
**(a Component Unit of Calhoun County)**

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**REHMANN ROBSON**

*Certified Public Accountants*

*A member of* **THE REHMANN GROUP**



## **INDEPENDENT AUDITORS' REPORT**

May 15, 2008

Members of the Board of County  
Road Commissioners  
County of Calhoun, Michigan  
Marshall, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the ***CALHOUN COUNTY ROAD COMMISSION, a component unit of Calhoun County, Michigan***, as of and for the year ended December 31, 2007, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Calhoun County Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of the **Calhoun County Road Commission** as of December 31, 2007, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2008, on our consideration of the Calhoun County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements which collectively comprise the Road Commission's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **Calhoun County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Calhoun County Road Commission, we offer the readers of the Road Commission's financial statements this narrative overview and analysis of the financial activities of the Road Commission for the fiscal year ended December 31, 2007.

### Financial Highlights

The Calhoun County Road Commission met the requirements of Governmental Accounting Standards Board (GASB) Statement No. 34 beginning with fiscal year end December 31, 2003.

Net assets may, over time, enable governmental agencies to determine their overall fiscal position. As shown on the Calhoun County Road Commission Net Asset chart below, the Road Commission's assets exceeded liabilities by \$43,132,628 at the end of the fiscal year.

When comparing the fiscal year to the previous year, net assets have increased by \$561,875. This was comprised of an increase of \$2,030,407 in infrastructure and capital assets, and a decrease of \$1,468,532 in unrestricted net assets.

At the end of the current fiscal period, general fund unreserved fund balance was \$495,475 or 3% of total general fund expenditures, or a decrease of 74%, \$1,396,802, over last fiscal year.

The Road Commission's debt decreased by approximately \$755,985 during the current fiscal year; no new debt was issued.

### Overview of the Financial Statements

This discussion and analysis is intended to provide a basis of understanding the Road Commission's basic financial statements. These statements comprise three components: (1) government-wide financial statements (2) fund financial statements, and (3) notes to the financial statements. Supplementary information is also provided for additional informational purposes.

To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net assets and general fund balance sheet on a single page and the statement of activities and general fund revenues, expenditures and changes in fund balance on a single page. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the Road Commission's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Road Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is strengthening or weakening.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Road Commission that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Road Commission include public works projects on County roads. There were no business-type activities of the Road Commission in 2007.

### **Government-wide Statements**

The *statement of net assets* presents information on all of the Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as an indicator of the Commission's overall fiscal position.

The *statement of activities* presents information showing how the Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The Commission is principally supported by Michigan Transportation fund distributions and intergovernmental grants and charges for services. The governmental activities of the Commission include providing construction, repair, maintenance, and snow removal of roads within Calhoun County, as well as providing housing rehabilitation and other community development programs to Calhoun County residents.

The government-wide financial statements include only the Commission itself. The Commission has no legally separate component units for which the Commission is financial accountable. In this report, financial information for the Commission is reported separately from the financial information presented for Calhoun County, which reports the Commission as a component unit.

**Fund financial statements.** A *fund* is grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Commission is accounted for in three governmental funds – the General Fund, and Housing Rehabilitation and Community Development Funds.



**Governmental funds.** *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial presentation, it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Commission maintains three governmental funds. The general fund is the major fund for financial reporting purpose as defined by GASB Statement #34. The Housing Rehabilitation and Community Development Funds are non-major funds.

The Commission adopts an annual appropriated budget for its funds. Budgetary comparison statements have been provided herein for the General Fund in order to demonstrate compliance with the budget.

The Commission does not maintain proprietary nor fiduciary funds.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Road Commission, assets exceeded liabilities by \$43,132,628 at the close of the most recent fiscal year.

By far the largest portion of the Road Commission's net assets (97 %) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Road Commission uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Road Commission's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Condensed Statement of Net assets:	<u>2006</u>	<u>2007</u>
Current and other assets	\$ 3,813,366	\$ 3,552,692
Capital assets	<u>42,443,007</u>	<u>43,754,181</u>
<b>Total assets</b>	<b><u>46,256,373</u></b>	<b><u>47,306,873</u></b>
Long-term liabilities outstanding	2,717,832	1,961,847
Other liabilities	<u>967,788</u>	<u>2,212,398</u>
<b>Total liabilities</b>	<b><u>3,685,620</u></b>	<b><u>4,174,245</u></b>
<b>Net assets:</b>		
Invested in capital assets	39,848,304	41,878,711
Unrestricted	<u>2,722,449</u>	<u>1,253,917</u>
<b>Total net assets</b>	<b><u>\$ 42,570,753</u></b>	<b><u>\$ 43,132,628</u></b>

At the end of the current fiscal year, the Road Commission is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

The government's net assets increased by \$561,875, during the current fiscal year. This recorded growth is solely due to the increases in infrastructure and capital assets recorded.

#### **Road Commission's Changes in Net Assets**

##### **Condensed Statement of Activities:**

<b>Revenue</b>	<u>2006</u>	<u>2007</u>
<b>Program revenue</b>		
Charges for services	\$ 2,011,339	\$ 3,393,163
Operating grants and contributions	9,994,660	9,512,268
Capital grants and contributions	<u>637,185</u>	<u>1,616,749</u>
<b>Total program revenue</b>	<b><u>12,643,184</u></b>	<b><u>14,522,180</u></b>
General revenue – Interest income	33,057	31,872
Gain from sale of land	<u>                    </u>	<u>126,400</u>
<b>Total revenue</b>	<b><u>12,676,241</u></b>	<b><u>14,680,452</u></b>
<b>Expenses</b>		
Public Works	11,760,916	13,858,537
Other		129,005
Debt Service - Interest only	<u>109,830</u>	<u>131,035</u>
<b>Total expenses</b>	<b><u>11,870,746</u></b>	<b><u>14,118,577</u></b>
<b>Increase in Net Assets</b>	<b><u>\$ 805,495</u></b>	<b><u>\$ 561,875</u></b>

**Governmental activities.** Governmental activities increased the Road Commission's net assets by \$561,875 during fiscal year 2007.

– Key elements of this increase are because the Road Commission was able to adjust their expenses to match the decrease in revenue from the Michigan Transportation Fund. Also, in the government-wide financial statements, capital outlay costs for equipment and infrastructure additions are not an expense, but rather are capitalized and included in capital assets, unlike the expensing treatment of these costs at the fund level. These additions amounted to approximately \$3,470,000 in 2007. The required treatment of these costs in the Statement of Activities was a key contributor to the increase in net assets in 2007.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the commission's financial statements. The notes to the financial statements can be found following the Basic Financial Statements.

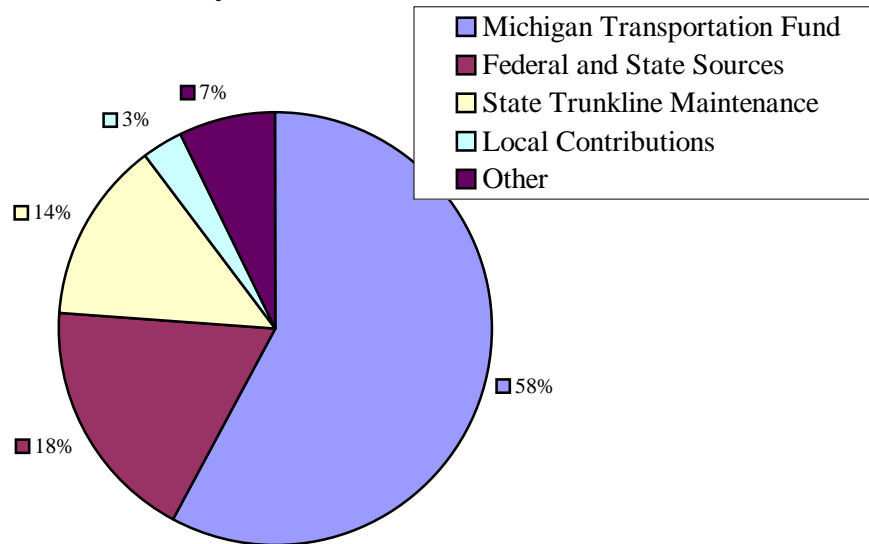
**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to the *Management Discussion and Analysis*.

### **Fund Level Financial Statements**

As of the end of the current fiscal year, the Commission's governmental funds reported combined ending fund balances of \$1,366,515, a decrease of \$1,510,036 in comparison with the prior year. Approximately 36% of this total amount constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to inventory purchases, which is included as a fund asset. The unreserved fund balance of the general fund is approximately \$495,475, which represents 3% of total general fund expenditures. The results of 2007 are reflective of the effect of ongoing expenditures exceeding available revenues. Michigan Transportation Fund distributions have been going down slightly over the past few years.

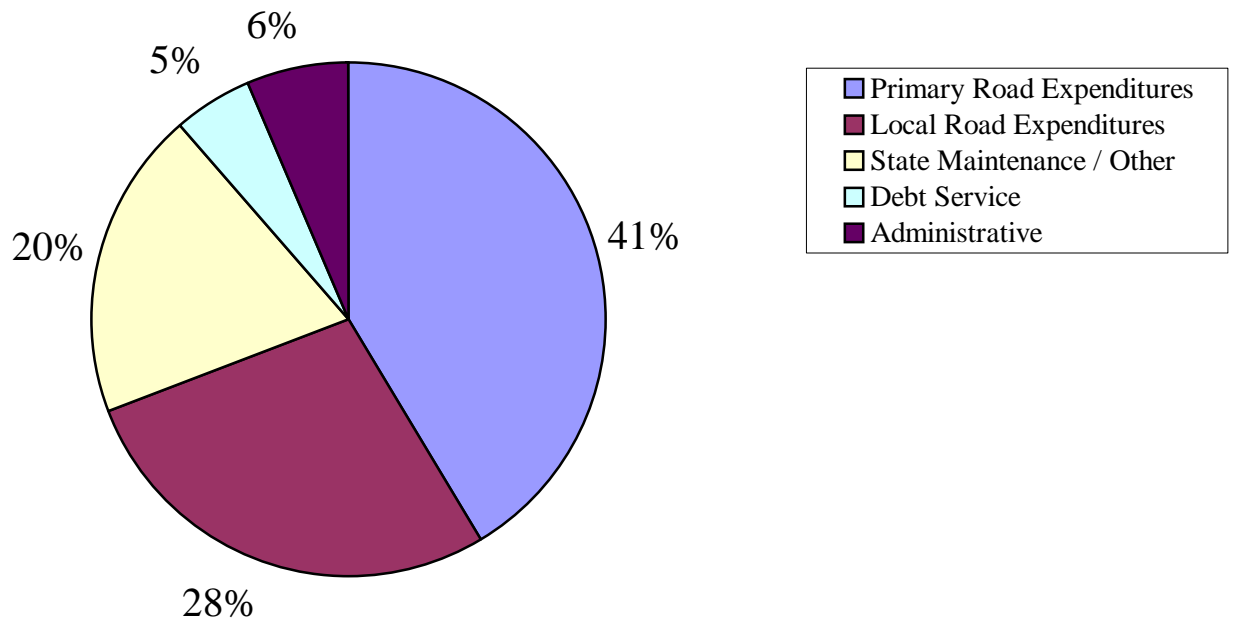
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### Revenues by Source - Governmental Activities



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### Expenditures - General Fund



## Capital Assets and Debt Administration

### Capital Assets

Major capital asset events during the current fiscal year included the following:

- Infrastructure assets reflect construction and improvements to the primary and local road system. Total additions (net of depreciation) to capital assets were \$ 1,311,174 of which infrastructure (roads and bridges) represented \$139,644.

### Calhoun County Road Commission Capital Assets (net of depreciation)

	<u>2006</u>	<u>2007</u>
<b>Land and improvements – not depreciated</b>	<b><u>\$ 22,689,174</u></b>	<b><u>\$ 23,701,201</u></b>
Land improvements	72,387	72,387
Buildings	1,739,615	1,739,615
Road Equipment	9,124,840	9,196,245
Shop Equipment	246,657	280,313
Office Equipment	463,023	480,227
Engineering Equipment	76,115	76,115
Yard and Storage Equipment	814,254	814,254
Depletable assets	147,667	147,667
Infrastructure		
Roads and Signals	32,275,882	33,849,850
Bridges	<u>6,858,689</u>	<u>7,420,836</u>
<b>Sub-total – capital assets depreciated</b>	<b><u>51,819,129</u></b>	<b><u>54,077,509</u></b>
<b>Accumulated Depreciation</b>		
Buildings and improvements	1,529,679	1,575,227
Depleteable assets	112,544	112,544
Equipment	9,545,805	9,824,960
Infrastructure – Roads and Signals	18,264,604	19,653,397
Infrastructure – Bridges	<u>2,612,664</u>	<u>2,858,401</u>
<b>Total Accumulated Depreciation</b>	<b><u>32,065,296</u></b>	<b><u>34,024,529</u></b>
<b>Total capital assets being depreciated – net</b>	<b><u>19,753,833</u></b>	<b><u>20,052,980</u></b>
<b>Governmental activities capital assets – net</b>	<b><u>\$ 42,443,007</u></b>	<b><u>\$ 43,754,181</u></b>

<b>Long-term Debt</b>	<b><u>2006</u></b>	<b><u>2007</u></b>
Bonds Payable	\$ 2,165,000	\$ 1,860,000
Lease Purchase Agreements	130,960	-0-
Compensated absences	123,129	86,377
Contracts Payable	<u>298,743</u>	<u>15,470</u>
<b>Total</b>	<b><u>\$ 2,717,832</u></b>	<b><u>\$ 1,961,847</u></b>

No new debt was issued in 2007, and scheduled bond and lease purchase payments were made according to the amortization schedules.

Additional information on the Road commission's long-term debt can be found in Note 4 to the financial statements.

### **Economic Factors and Road Fund Budgetary Highlights**

The Road Commission amended its 2007 general fund budget during the year to reflect the allocation between primary and local road projects after completion of the 2007 Master List of Projects.

### **Requests for Information**

This financial report is designed to provide a general overview of Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Managing Director, Calhoun County Road Commission at 13300 Fifteen Mile Road, Marshall, MI 49068.

## **BASIC FINANCIAL STATEMENTS**

**CALHOUN COUNTY ROAD COMMISSION**  
**STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET**  
**DECEMBER 31, 2007**

	<u>Major Fund</u> <u>General</u> <u>Operating</u>	<u>Nonmajor</u> <u>funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>	<u>Adjustments</u>	<u>Statement</u> <u>of Net Assets</u>
<b>Assets</b>					
Cash and interest bearing deposits	\$ 202,309	\$ -	\$ 202,309	\$ -	\$ 202,309
Accounts receivable:					
Due from Michigan Department of Transportation	1,702,307	-	1,702,307	-	1,702,307
Due from other governmental units	82,859	-	82,859	670,124	752,983
Other	18,222	-	18,222		18,222
Due from other County funds and component units:					
Parks fund	20,920		20,920	(20,920)	-
Board of Public Works component unit	649,204	-	649,204	(649,204)	-
Inventories					
Road materials	628,370	-	628,370	-	628,370
Equipment material and parts	242,670	-	242,670	-	242,670
Deferred expense	5,831	-	5,831	-	5,831
Capital assets					
Assets not being depreciated	-	-	-	23,701,201	23,701,201
Assets being depreciated	-	-	-	20,052,980	20,052,980
<b>Total assets</b>	<b><u>\$ 3,552,692</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 3,552,692</u></b>	<b><u>43,754,181</u></b>	<b><u>47,306,873</u></b>
<b>Liabilities</b>					
Accounts payable	1,775,521	-	1,775,521	-	1,775,521
Accrued liabilities	143,716	-	143,716	26,221	169,937
Escrow deposits	105,012	-	105,012	-	105,012
Short-term equipment advances	161,928	-	161,928	-	161,928
Long-term liabilities					
Due within one year	-	-	-	343,400	343,400
Due after one year	-	-	-	1,618,447	1,618,447
<b>Total liabilities</b>	<b><u>2,186,177</u></b>	<b><u>-</u></b>	<b><u>2,186,177</u></b>	<b><u>1,988,068</u></b>	<b><u>4,174,245</u></b>
<b>Fund Balance/Net Assets</b>					
Fund balance					
Reserved					
Inventories	871,040	-	871,040	(871,040)	-
Unreserved					
Undesignated	495,475	-	495,475	(495,475)	-
<b>Total fund balance</b>	<b><u>1,366,515</u></b>	<b><u>-</u></b>	<b><u>1,366,515</u></b>	<b><u>(1,366,515)</u></b>	<b><u>-</u></b>
<b>Total liabilities and fund balance</b>	<b><u>\$ 3,552,692</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 3,552,692</u></b>		
<b>Net Assets:</b>					
Investment in capital assets, net of related debt				41,878,711	41,878,711
Unrestricted				1,253,917	1,253,917
<b>Total net assets</b>				<b><u>\$ 43,132,628</u></b>	<b><u>\$ 43,132,628</u></b>

The accompanying notes are an integral part of these financial statements.



# CALHOUN COUNTY ROAD COMMISSION

## Reconciliation of Governmental Fund Balance Sheet to Statement of Net Assets

DECEMBER 31, 2007

Fund balances - Governmental Funds	\$ 1,366,515
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	43,754,181
Long - term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(1,860,000)
Contracts payable	(15,470)
Certain liabilities, such as compensated absences and claims payable, are not due and payable in the current period and therefore are not reported in the funds:	
Deduct - compensated absences payable	(86,377)
Deduct - accrued interest payable	<u>(26,221)</u>
Net assets of governmental activities	<u>\$ 43,132,628</u>

The accompanying notes are an integral part of these financial statements.

**CALHOUN COUNTY ROAD COMMISSION**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Major Fund General Operating</u>	<u>Nonmajor funds</u>	<u>Total Governmental Funds</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<b>Expenditures/Expenses</b>					
Current:					
Public works	\$ 15,406,463	\$ -	\$ 15,406,463	\$ (1,547,926)	\$ 13,858,537
Other	-	129,005	129,005		129,005
Debt service:					
Principal	719,233	-	719,233	(719,233)	-
Interest	135,787	-	135,787	(4,752)	131,035
<b>Total expenditures/expenses</b>	<u>16,261,483</u>	<u>129,005</u>	<u>16,390,488</u>	<u>(2,271,911)</u>	<u>14,118,577</u>
<b>Program revenue</b>					
Charges for services	3,393,163	-	3,393,163	-	3,393,163
Operating grants and contributions	9,512,268	-	9,512,268	-	9,512,268
Capital grants and contributions	1,616,749	-	1,616,749	-	1,616,749
<b>Total program revenue</b>	<u>14,522,180</u>	<u>-</u>	<u>14,522,180</u>	<u>-</u>	<u>14,522,180</u>
<b>Net program revenue</b>					<u>403,603</u>
<b>General revenue</b>					
Interest revenue	31,872	-	31,872	-	31,872
Proceeds from sale of land	326,400		326,400	(326,400)	-
Gain from sale of land	-	-	-	-	126,400
<b>Total general revenue</b>	<u>358,272</u>	<u>-</u>	<u>358,272</u>	<u>(326,400)</u>	<u>158,272</u>
<b>Net change in fund balances</b>	(1,381,031)	(129,005)	(1,510,036)	1,510,036	
<b>Change in net assets</b>				561,875	561,875
Fund balance /net assets, beginning of year	<u>2,747,546</u>	<u>129,005</u>	<u>2,876,551</u>	<u>39,694,202</u>	<u>42,570,753</u>
<b>Fund balance /net assets, end of year</b>	<u>\$ 1,366,515</u>	<u>\$ -</u>	<u>\$ 1,366,515</u>	<u>\$ 41,766,113</u>	<u>\$ 43,132,628</u>

The accompanying notes are an integral part of these financial statements.

## CALHOUN COUNTY ROAD COMMISSION

### Reconciliation of the Governmental Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities

FOR THE YEAR ENDED DECEMBER 31, 2007

Net change in fund balances - Governmental Funds	\$ (1,510,036)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Also, in the governmental funds, proceeds on sale of capital assets is recorded as expenditures, whereas in the statement of activities the gain or loss on the sale is recorded.

Add capital outlay	122,265
Add infrastructure additions	3,348,142
Deduct depreciation expense	(1,959,233)
Deduct proceeds from sale of capital asset	(326,400)
Add gain from sale of capital asset	126,400

Repayment of debt principal is an expenditure in the funds but not in the statement of activities:

Bond payments	305,000
Contract and lease purchase installment payments	461,700
Addition adjustment to contract payable including negative amortization	(47,467)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add decrease in compensated absences payable	36,752
Add decrease in accrued interest payable	4,752

Change in net assets of governmental activities	<u>\$ 561,875</u>
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The accompanying notes are an integral part of these financial statements.

**CALHOUN COUNTY ROAD COMMISSION**  
**GENERAL FUND**  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**YEAR ENDED DECEMBER 31, 2007**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Actual Over (Under) Amended Budget</b>
<b>Revenue:</b>				
Licenses and permits	\$ 75,000	\$ 75,000	\$ 82,351	\$ 7,351
Intergovernmental:				
Federal sources	1,675,000	1,875,000	1,616,749	(258,251)
State sources	7,977,000	8,217,000	9,191,254	974,254
Local sources	342,004	445,004	422,945	(22,059)
Charges for services	1,728,872	2,504,382	2,887,867	383,485
Interest and rent	-	-	31,872	31,872
Other	-	333,684	647,414	313,730
<b>Total revenue</b>	<b>11,797,876</b>	<b>13,450,070</b>	<b>14,880,452</b>	<b>1,430,382</b>
<b>Expenditures:</b>				
Current:				
Construction	-	-	2,975	2,975
Primary heavy maintenance	4,596,713	2,414,713	2,337,043	(77,670)
Local heavy maintenance	-	6,500	1,008,125	1,001,625
Primary maintenance	836,780	2,350,780	4,678,239	2,327,459
Local maintenance	2,780,000	3,206,969	3,717,324	510,355
Equipment - net	75,000	(662,203)	(545,391)	116,812
Administrative	1,031,785	1,031,785	1,068,076	36,291
Other	1,953,052	2,640,552	3,342,510	701,958
Capital outlay - net	175,000	175,000	(202,438)	(377,438)
Debt service	523,284	531,134	855,020	323,886
<b>Total expenditures</b>	<b>11,971,614</b>	<b>11,695,230</b>	<b>16,261,483</b>	<b>4,566,253</b>
<b>Net change in fund balance</b>	<b>(173,738)</b>	<b>1,754,840</b>	<b>(1,381,031)</b>	<b>(3,135,871)</b>
Fund balance, beginning of year	2,747,546	2,747,546	2,747,546	-
<b>Fund balance, end of year</b>	<b>\$ 2,573,808</b>	<b>\$ 4,502,386</b>	<b>\$ 1,366,515</b>	<b>\$ (3,135,871)</b>

The accompanying notes are an integral part of these financial statements.

# CALHOUN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Calhoun County Road Commission (the “Road Commission”) conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

#### **Reporting Entity**

The Calhoun County Road Commission, referred to as the Road Commission, is a discrete component unit of the County of Calhoun, Michigan. The Road Commission was established pursuant to the county road law (MCL 224.1), and is governed by a three member Board of County Road Commissioners appointed by the County Board of Commissioners.

The criteria established by the Governmental Accounting Standards Board Statement No. 14, “The Financial Reporting Entity”, for determining the reporting entity includes having significant financial or operational relationships. Based on the above criteria, these financial statements present the Calhoun County Road Commission, a discretely presented component unit of Calhoun County.

The Road Commission General Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners has responsibility for the administration of the Road Commission’s General Operating Fund.

The Road Commission also has the responsibility for administering various County projects and grants through the Community Development Department.

#### **Basis of Presentation**

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. *Governmental activities* are supported by charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

# CALHOUN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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As permitted by GASB Statement No. 34, the Road Commission uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Assets and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances. The general fund, the sole major governmental fund, is reported as a separate column in the aforementioned financial statements.

### **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements (statement of net assets and the statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund statement of revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and grant revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

Additionally, the government reports the following funds as nonmajor special revenue funds. The *housing rehabilitation fund* accounts for housing grants for projects within the County. The *community development fund* accounts for various development projects which benefit the County.

# **CALHOUN COUNTY ROAD COMMISSION**

## **NOTES TO FINANCIAL STATEMENTS**

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### **Budgetary Data**

The governmental funds are under formal budgetary control. The budget shown in the financial statements was adopted on a basis consistent with generally accepted accounting principles (GAAP), which is the modified accrual basis used to reflect actual results, and consists only of those amounts contained in the formal budget as originally adopted or as amended by the Board of County Road Commissioners. The budget for the General Operating Fund and Special Revenue Funds are adopted on a functional basis, and in accordance with the Uniform Budgeting and Accounting Act as prescribed by the State of Michigan. Variances at the functional level of control in the general fund are reflected in the Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual – General Operating Fund.

### **Cash and Cash Equivalents**

Amounts reported as cash and cash equivalents include cash in checking and savings accounts.

### **Inventory**

Inventory consists of various operating parts, supplies, and road material, and the cost is recognized using the consumption method (inventories recorded as expenditures when they are used). Inventories are stated at average cost determined on a first-in, first-out method, except for road materials, which are determined on the average cost method, and are not in excess of fair value.

### **Prepaid Items**

Payments made to vendors for services that will benefit future periods are recorded as prepaid items.

### **Fund Balance Reservations**

Certain assets of the Road Commission are reserved and therefore, not available for future appropriation. These include amounts reserved for inventory.

### **Capital Assets**

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements (statement of net assets and statement of changes in net assets). Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated. The Road Commission defines capital assets as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of two years.

# CALHOUN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Operating Fund.

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

<b><u>Asset Category</u></b>	<b><u>Useful Life in Years</u></b>
Buildings and improvements	40
Equipment	5 to 8
Infrastructure	8 to 50

### **Deferred Compensation Plan**

The Road Commission offers its employees a deferred compensation plan created in accordance with IRS section 457. The plan, available to all Commission employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liability are not included in the Road Commission's financial statements.

### **Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.



# CALHOUN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### Compensated Absences

**Accrued Vacation and Sick** - In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts. Employees are compensated at the rate of 100% of their vested vacation and sick leave upon termination for any reason. Beginning in 1999, the accumulated sick leave is paid to the employees on an annual basis at the end of each calendar year. The vested portion of accumulated vacation leave payable is included as a liability in the Statement of Net Assets at December 31, 2007.

## 2. CASH DEPOSITS AND INVESTMENTS

### Deposits

At December 31, 2007, the amount of the Road Commission's deposits were as follows:

	<b>Carrying Amount</b>	<b>Bank Balance</b>
Held by Calhoun County Road Commission	\$ 168,344	\$ 194,920
Held by Calhoun County	33,665	33,665
Petty cash	300	-
	<b>\$ 202,309</b>	<b>\$ 228,585</b>

Statutes authorize the Road Commission to invest funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through 12/31/97

# CALHOUN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### **Investment and deposit risk**

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the listing of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Road Commission has no investments at December 31, 2007.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on investment credit risk. The Road Commission has no investments at December 31, 2007.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. As of December 31, 2007, \$60,064 of the Road Commission's bank balance of \$194,920 was exposed to custodial credit risk because that amount was uninsured by the FDIC. Deposits in the amount of \$33,665 held by Calhoun County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Road Commission.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Road Commission does not have a policy for investment custodial credit risk.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on concentration of credit risk. The Road Commission has no investments at December 31, 2007.

# CALHOUN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### 3. CAPITAL ASSETS

Changes in the components of the capital assets are summarized as follows:

	Balance January 1, 2007	Additions	Deductions	Balance December 31, 2007
<b>Capital assets not being depreciated:</b>				
Land	\$ 484,292	\$ -	\$ 200,000	\$ 284,292
Land improvements - infrastructure	22,204,882	1,212,027	-	23,416,909
<b>Total capital assets not being depreciated</b>	<b>22,689,174</b>	<b>1,212,027</b>	<b>200,000</b>	<b>23,701,201</b>
<b>Capital assets being depreciated:</b>				
Land improvements	72,387	-	-	72,387
Buildings and improvements	1,739,615	-	-	1,739,615
Road equipment	9,124,840	71,405	-	9,196,245
Shop equipment	246,657	33,656	-	280,313
Office equipment	463,023	17,204	-	480,227
Engineers' equipment	76,115	-	-	76,115
Yard and storage	814,254	-	-	814,254
Depleteable assets	147,667	-	-	147,667
Infrastructure - roads and signals	32,275,882	1,573,968	-	33,849,850
Infrastructure - bridges	6,858,689	562,147	-	7,420,836
<b>Total capital assets being depreciated</b>	<b>51,819,129</b>	<b>2,258,380</b>	<b>-</b>	<b>54,077,509</b>
<b>Accumulated depreciation and depletion</b>				
Buildings and improvements	1,529,679	45,548	-	1,575,227
Equipment	9,545,805	279,155	-	9,824,960
Depleteable assets	112,544	-	-	112,544
Infrastructure - roads and signals	18,264,604	1,388,793	-	19,653,397
Infrastructure - bridges	2,612,664	245,737	-	2,858,401
<b>Total accumulated depreciation and depletion</b>	<b>32,065,296</b>	<b>1,959,233</b>	<b>-</b>	<b>34,024,529</b>
<b>Total capital assets being depreciated - net</b>	<b>19,753,833</b>	<b>299,147</b>	<b>-</b>	<b>20,052,980</b>
<b>Governmental activities capital assets - net</b>	<b>\$ 42,443,007</b>	<b>\$ 1,511,174</b>	<b>\$ 200,000</b>	<b>\$ 43,754,181</b>

# CALHOUN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### 4. LONG-TERM DEBT

Long-term debt of the Road Commission consists of the following:

	<b>Balance January 1, 2007</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31 2007</b>	<b>Due Within One Year</b>
Bonds payable	\$ 2,165,000	\$ -	\$ 305,000	\$ 1,860,000	\$ 315,000
Installment leases payable	130,960	-	130,960	-	-
Contracts payable	298,743	47,467	330,740	15,470	3,400
Compensated absences	<u>123,129</u>	<u>-</u>	<u>36,752</u>	<u>86,377</u>	<u>25,000</u>
<b>Totals</b>	<b><u>\$ 2,717,832</u></b>	<b><u>\$ 47,467</u></b>	<b><u>\$ 803,452</u></b>	<b><u>\$ 1,961,847</u></b>	<b><u>\$ 343,400</u></b>

### Transportation Bonds

The Road Commission has issued the following Transportation Fund Notes:

Series 1998 bonds are payable in one remaining installment of \$50,000 with interest at 4.15% per annum. The final payment is due August 1, 2008.

Series 2002A bonds are payable in annual installments of \$90,000 with interest at 3.35% to 4.4% per annum. The final payment is due August 1, 2012.

The 2002B series bonds are payable in annual installments of \$35,000 to \$50,000 with interest at 3.15% to 4.00% per annum. The final payment is due August 1, 2012.

Series 2003 bonds are payable in annual installments of \$75,000 to \$115,000 with interest at 3.25% to 4.0% per annum. The final payment is due March 1, 2013.

Series 2005 bonds are payable in annual installments of \$55,000 to \$85,000 with interest at 3.00% to 4.05% per annum. The final payment is due March 1, 2015.

# CALHOUN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### **Special Assessment Contract**

The Road Commission was assessed their portion of sewer construction costs for the Eastern Calhoun County Sewer Project No. 13 (Sheridan Township - Starr Commonwealth) in the amount of \$90,087 during 1992. Project construction and financing is being administered by the Calhoun County Department of Public Works. The Road Commission is responsible for making variable annual principal payments and interest at 3% of outstanding principal through the year 2012. At December 31, 2007, the Road Commission's portion of the sewer liability is \$15,470.

### **Land Contract**

#### *Ott Property*

The Road Commission entered into a contract to purchase a building and land which provided for payments of \$600 per month beginning in October, 1999, with interest at 10% per annum. This was a negative amortization land contract where the accrued interest was added to the land contract principal balance. The property was sold and the contract balance paid off in 2007.

### **Installment Lease**

The Road Commission consolidated and refinanced various equipment leases into one installment lease contract, which was secured by the related equipment, and called for semi-annual installments of \$134,031 through January 2007, which included interest at 4.5%. The loan is fully paid off at December 31, 2007.

### **Compensated Absences**

Employees are allowed to accumulate vacation time off from year to year until the employee has completed 2 years of service. Any accumulated vacation pay is paid upon termination.

# CALHOUN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

Annual debt service requirements to maturity for bonds and contracts are as follows:

Year ending December 31,	Bonds		Contracts		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 315,000	\$ 69,177	\$ 3,400	\$ 395	\$ 318,400	\$ 69,572
2009	280,000	57,388	3,400	310	283,400	57,698
2010	290,000	46,903	3,400	225	293,400	47,128
2011	305,000	76,362	3,400	140	308,400	76,502
2012	315,000	40,671	1,870	55	316,870	40,726
2013-2015	355,000	17,187	-	-	355,000	17,187
	<b>\$ 1,860,000</b>	<b>\$ 307,688</b>	<b>\$ 15,470</b>	<b>\$ 1,125</b>	<b>\$ 1,875,470</b>	<b>\$ 308,813</b>

In addition, the Road Commission has obtained short-term advances in order to finance capital equipment used for the State Trunkline Maintenance contract. The advance balance was \$161,928 at December 31, 2007.

### 5. INTERFUND RECEIVABLES AND PAYABLES

From time to time the Road Commission has interfund balances between many of its funds. These interfund balances result primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. There were no interfund receivable balances at December 31, 2007.

### 6. DEFINED BENEFIT PENSION PLAN

#### Plan Description

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

# CALHOUN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### Funding Policy

The Road Commission is required to contribute at an actuarially determined rate; the current rate is 16.4 % to 18.8% of annual covered payroll. Certain employees are required to contribute to the Plan. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Road Commission.

### Annual Pension Cost

For the year ended December 31, 2007, the Road Commission's annual pension cost of \$497,635 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The Road Commission's unfunded actuarial accrued liability as of December 31, 2006, the date of the latest actuarial valuation, is being amortized as a level percentage of projected payroll on an open basis over 29 years.

### Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/05	\$ 528,560	100%	\$ -
12/31/06	519,201	100	-
12/31/07	497,635	100	-

### Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age</u>	<u>Unfunded Actuarial Liability (UAAL)</u>	<u>UAAL as a Percentage of Funded Ratio</u>	<u>Covered Payroll</u>	<u>Percentage of Covered Payroll</u>
12/31/04	\$6,103,478	\$ 10,561,802	\$ 4,458,324	58	\$ 3,226,726	147%
12/31/05	6,601,274	11,402,631	4,801,357	58	3,179,707	151
12/31/06	7,179,600	12,014,764	4,835,164	60	2,948,271	164

# CALHOUN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### Additional Information

On April 1, 1994, the Road Commission ceased its pension plan with John Hancock Mutual Life Insurance Company (JHMLIC). Sufficient reserves were set aside in annuities for the existing retirees of the Plan on April 4, 1994.

### **7. RISK MANAGEMENT**

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool ("Pool") established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions, which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Calhoun County Road Commission pays an annual premium to the Pool for property (buildings and grounds) coverage, automobile liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also self-insured for workers' compensation as a member of the County Road Association Worker's Compensation Fund

In the past three years, there have been no reductions in coverages, nor have settlements exceeded coverages. Management of the Road Commission believes that losses, if any, in excess of Insurance Pool coverages would not be material to the financial position of the Road Commission.

The Road Commission continues to carry commercial insurance for employee health and accident insurance.

### **8. CONTINGENCIES**

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit.

Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.



# **CALHOUN COUNTY ROAD COMMISSION**

## **NOTES TO FINANCIAL STATEMENTS**

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### **9. POSTEMPLOYMENT BENEFITS**

The Road Commission provides both health and life insurance benefits for retired employees meeting specific years of continued service requirements. Generally, coverage of these benefits extends until the employees death. The spouse of the deceased employee is not covered after the employee' death. Costs incurred by the Road Commission during 2007 amounted to \$471,408 among 50 retirees.

The Governmental Accounting Standards Board has recently released Statement No. 45, "Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions." The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2008. Management is currently assessing the impact of this new accounting standard on the Road Commission's financial statements for future reporting periods.

\* \* \* \* \*

## **OPERATING FUND SCHEDULES**

**CALHOUN COUNTY ROAD COMMISSION**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**COMBINING BALANCE SHEET**  
**DECEMBER 31, 2007**

	<u>Housing Rehabilitation</u>	<u>Community Development</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ -	\$ -	\$ -
<b>Fund Equities</b>			
Unreserved, undesignated	\$ -	\$ -	\$ -

**CALHOUN COUNTY ROAD COMMISSION**

**NONMAJOR SPECIAL REVENUE FUNDS**

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES**

**IN FUND BALANCES**

**YEAR ENDED DECEMBER 31, 2007**

	<b>Housing Rehabilitation</b>	<b>Community Development</b>	<b>Total</b>
<b>Revenues</b>			
Charges for services	\$ -	\$ -	\$ -
<b>Expenditures</b>			
Contractual services	-	-	-
General and administrative	-	-	-
<b>Total expenditures</b>	-	-	-
<b>Revenue over (under) expenditures</b>	-	-	-
<b>Other Financing uses</b>			
Transfer to primary government	288	14,953	15,241
Transfer to Parks fund of primary government	-	113,764	113,764
<b>Total other financing uses</b>	288	128,717	129,005
<b>Net change in fund balances</b>	(288)	(128,717)	(129,005)
Fund balances, beginning of year	288	128,717	129,005
Fund balances, end of year	\$ -	\$ -	\$ -

# CALHOUN COUNTY ROAD COMMISSION

## Detail Schedule of Revenue General Operating Fund

Year Ended December 31, 2007

### Revenues

Licenses and permits	\$ 82,351
Federal sources:	
High Priority	831,897
Surface transportation program (STP)	784,852
Total Federal Sources	<u>1,616,749</u>
State sources:	
Motor Vehicle Highway Funds - Act 51:	
Engineering	10,000
Primary roads	5,261,959
Local roads	2,045,453
Primary urban roads	614,518
Local urban roads	254,180
Critical Bridge	669,216
Economic Development Fund and other	335,928
Total State Sources	<u>9,191,254</u>
Local sources	
Township contributions	418,892
Other contributions	4,053
Total Local Sources	<u>422,945</u>
Charges for services	
State maintenance contract	1,935,892
Other services	947,937
Salvage sales	4,038
Total Charges For Services	<u>2,887,867</u>
Interest and rent	<u>31,872</u>
Other revenue:	
Other	647,414
Total Other Revenue	<u>647,414</u>
<b>Total Revenue</b>	<b><u>\$ 14,880,452</u></b>

# CALHOUN COUNTY ROAD COMMISSION

## Detail Schedule of Expenditures General Operating Fund

Year Ended December 31, 2007

### Expenditures:

Construction	\$ 2,975
Preservation - Structural Improvements	
Primary roads and structures	2,337,043
Local roads and structures	1,008,125
Total Heavy Maintenance	<u>3,345,168</u>
Maintenance:	
Primary roads and structures, winter and traffic control	4,678,239
Local roads and structures, winter and traffic control	3,717,324
Total Maintenance	<u>8,395,563</u>
Equipment:	
Direct	1,048,077
Indirect	665,560
Operating	380,923
Less: Equipment rental	(2,639,951)
Total Equipment	<u>(545,391)</u>
Administrative	<u>1,068,076</u>
Other	<u>3,342,510</u>
Capital outlay -net	<u>(202,438)</u>
Debt Service:	
Principal retirement	719,233
Interest	135,787
Total Debt Service	<u>855,020</u>
<b>Total Expenditures</b>	<b><u>\$ 16,261,483</u></b>

# CALHOUN COUNTY ROAD COMMISSION

## Schedule of Revenue, Expenditures and Changes

### In Fund Balances

### General Operating Fund

**Year Ended December 31, 2007**

	Primary Road Fund	Local Road Fund	County Road Fund	Total
<b>Revenues</b>				
Licenses and permits	\$ -	\$ -	\$ 82,351	\$ 82,351
Intergovernmental:				
Federal sources	1,616,749	-	-	1,616,749
State sources	6,192,862	2,971,650	26,742	9,191,254
Local sources	-	286,624	136,321	422,945
Charges for services	2,516,090	-	371,777	2,887,867
Interest and rent	-	-	31,872	31,872
Other	-	-	647,414	647,414
<b>Total revenue</b>	<b>10,325,701</b>	<b>3,258,274</b>	<b>1,296,477</b>	<b>14,880,452</b>
<b>Expenditures</b>				
Construction	2,975	-	-	2,975
Preservation - structural improvements	2,337,043	1,008,125	-	3,345,168
Maintenance:				
Road and structures	3,065,755	2,878,103	-	5,943,858
Winter	1,014,816	743,296	-	1,758,112
Traffic control	597,668	95,925	-	693,593
Equipment - net	(322,054)	(185,706)	(37,631)	(545,391)
Administrative	638,302	429,774	-	1,068,076
Trunkline maintenance	1,949,266	-	-	1,949,266
Trunkline nonmaintenance	604,350	-	-	604,350
Other	131,419	-	657,475	788,894
Capital outlay - net	-	-	(202,438)	(202,438)
Debt service-principal	-	-	719,233	719,233
Debt service-interest	-	-	135,787	135,787
<b>Total expenditures</b>	<b>10,019,540</b>	<b>4,969,517</b>	<b>1,272,426</b>	<b>16,261,483</b>
<b>Revenue over (under) expenditures before other financing sources (uses)</b>	<b>306,161</b>	<b>(1,711,243)</b>	<b>24,051</b>	<b>(1,381,031)</b>
<b>Other financing sources (uses)</b>				
Optional transfers	(1,455,180)	1,711,243	(256,063)	-
<b>Net change in fund balances</b>	<b>(1,149,019)</b>	<b>-</b>	<b>(232,012)</b>	<b>(1,381,031)</b>
Fund Balance, beginning of year	1,149,019	-	1,598,527	2,747,546
<b>Fund Balance, end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,366,515</b>	<b>\$ 1,366,515</b>



**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

May 15, 2008

Members of the Board of County  
Road Commissioners  
County of Calhoun, Michigan  
Marshall, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **CALHOUN COUNTY ROAD COMMISSION**, a component unit of Calhoun County, Michigan, as of and for the year ended December 31, 2007, and have issued our report thereon dated May 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Calhoun County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Road Commission's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be significant deficiency, as defined above.



A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Road Commission's internal control. We consider the deficiencies described in the following paragraphs to be a significant deficiencies in internal control over financial reporting.

### **IT Controls**

Limiting access to key financial data through strong password and access policies is a key IT control. Calhoun County Road Commission does not have a strong set of password controls that limit access to company financial information. We recommend that management oversee increasing password and other controls to include, but not limited to, the following matters:

1. We understand that computer passwords at the network and financial accounting software level are not changed on a regular basis. In order to reduce the risk of access to computer files by unauthorized personnel, we recommend that the Road Commission institute a policy that requires passwords to be changed on a regular basis. For the size and complexity of Calhoun County Road Commission, once every six months would be adequate. The Road Commission may also wish to investigate building into its software automatic expiration of passwords to ensure that they are changed periodically.
2. When users vacate the work areas for any length of time they should be locking their workstations. Windows provides an effective workstation security system that can be invoked with one set of keystrokes. Locking a personal workstation is a basic control that limits access to accounting records by unauthorized individuals. We recommend that Calhoun County Road Commission require all PC users to lock their workstations when they are unattended.
3. Usernames and passwords are a key control for limiting access to an organizations network and financial reporting system. Passwords should be forced by the system to be at least eight characters with a combination of letters, numbers and special characters. Currently, Calhoun County Road Commission does not force either of these controls at the network or financial application level. We recommend that the network and accounting system be set to force complex passwords.

### **Preparation of Financial Statements in Accordance with GAAP**

All governmental entities are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the road commission's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting)

As is the case with many smaller and medium-sized entities, the road commission has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the road commission's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the government's internal controls.

Due to the lack of knowledge and expertise relative to preparing GAAP financial statements possessed by the finance department, which is the situation of most entities of the same size, management has made the decision that it is in their best interest to outsource the preparation of its annual financial statements to the auditors rather than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

As a result of this condition, the road commission lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The road commission has evaluated the benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the district to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Road Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are not material weaknesses.

However, we noted other matters involving the internal control over compliance, financial reporting and/or operating efficiency that we have reported to management of Calhoun County Road Commission in a separate letter dated May 15, 2008.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Calhoun County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Board of Road Commissioners, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Lehmann Johnson", is positioned in the lower right area of the page.



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



May 15, 2008

To the Board of County Road Commissioners  
Calhoun County Road Commission

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *Calhoun County Road Commission* (the “Road Commission”) for the year ended December 31, 2007, and have issued our report thereon dated May 15, 2008. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter dated May 15, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Road Commission’s compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on February 10, 2008.

## **Significant Audit Findings**

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Road Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets including infrastructure is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

- The financial statements may be affected by unusual transactions, including nonrecurring transactions. No unusual transactions were noted during the year.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated May 15, 2008.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the *Calhoun County Road Commission* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Johnson", is positioned below the "Very truly yours," text.

# **Calhoun County Road Commission**

## **Comments and Recommendations**

**For the Year Ended December 31, 2007**

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In planning and performing our audit of the financial statements of the Calhoun County Road Commission (the "Road Commission") as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Road Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 's internal control. Accordingly, we do not express an opinion on the effectiveness of the Road Commission's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in which are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

# **Calhoun County Road Commission**

## **Comments and Recommendations (Continued)**

**For the Year Ended December 31, 2007**

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### **Other Matters**

#### **OPEB Liability**

The Road Commission, as well as other governmental units which offer other post employment benefits (health and life insurance benefits to retirees, or “OPEB”) are going to require recording the annual cost and liability in the annual financial statements. Up until this new accounting standard is implemented, governmental units, including the Road Commission, have been on a “pay as you go” or cash basis to reflect these costs in their financial statements. This accounting treatment stays in place for the Road Commission through the fiscal year ended December 31, 2007. Then, for fiscal year 2008, this new reporting standard will require an actuarial report in order to determine funding requirements to force recording of a liability while service is rendered (normal cost), plus an adjustment for past service costs (called amortization of actuarial accrued liability).

The amount of the annual “ARC” expense must be recorded on each entity’s financial statements. To the extent that this annual “ARC” amount is not currently funded, the under-funding must be reported on the entity’s balance sheet as a liability.

This comment is intended as an informational point. Accordingly, the Road Commission should make sure all preparations and forecasts are addressed as the implementation date draws nearer

#### **Interfund Loans**

This comment is repeated again for the year ended December 31, 2007. At December 31, 2007, the Road Commission general operating fund has advanced The Board of Public Works Solid Waste fund \$649,204 which is shown as due from component units in the financial statements. These transactions represent an unauthorized use of Road funds if the loans are other than temporary. These loan balances have existed for the past several years.

The Boards of the Roads and Public Works should explore ways to reduce the interfund loan balance completely.

# **Calhoun County Road Commission**

## **Comments and Recommendations (Concluded)**

**For the Year Ended December 31, 2007**

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### **Commissioner Pay**

In our testing of payroll, and specifically related to the Road Commissioners' pay, it was noted that documentation of the Commissioners' pay and benefits is lacking. There should be proper documentation detailing what the salary and the benefits of the Commissioners are to be, and the pay rate being used in the payroll system should be checked at least annually or when any adjustments are made to the pay.

\* \* \* \* \*